

DW 99-113

HANOVER WATER WORKS COMPANY

Petition for Step Adjustment

Order Nisi Approving Step Adjustment

O R D E R    N O. 23,889

January 3, 2002

On May 8, 1998, Hanover Water Works Company (Hanover or the Company) petitioned the New Hampshire Public Utilities Commission (Commission) for approval of a Drinking Water State Revolving Fund (DWSRF) loan in the amount of \$4,035,000. These funds were intended to be used for needed improvements to Hanover's distribution system as identified in a recent study. These improvements are a main replacement on East Wheelock Street, an improvement to the Balch Hill Pump Station, an 800,000 gallon storage facility and transmission and distribution lines on Crosby and Lebanon Streets, a main replacement on North College Street, and a source meter at the Fletcher Reservoir. Docket DF 98-076 was opened, and after duly noticed hearings, Order No. 23,007, issued September 1, 1998, authorized the Company to acquire the financing. In addition, the Commission authorized two step increases in Hanover's rates following completion of the two planned phases of the construction program.

Because of delays in construction, the Company requested, on October 8, 1999, an overall increase of 23% in water rates in DW 99-113, without consideration of the construction that had yet to be completed. By Order No. 23,435, issued March 28, 2000, the Commission approved a Settlement Agreement between Hanover and the Commission Staff. That Agreement provided for a revenue increase of 20.85%, and for one future step adjustment for all of the construction to be completed under the DWSRF loan that was still in progress at that time.

On November 11, 2001, Hanover filed its request for a step increase which would, if approved, result in additional revenues of \$296,113, an increase of 28.2% over current rates. The Company requested that the Commission provide its authorization so that the revenue increase resulting from the step adjustment can be included in its January 1, 2002 bills to customers.

The Staff of the Commission has conducted an audit of the construction costs of the Company's improvements for compliance with the terms outlined in Order No. 23,435, which authorized the step adjustment. The Staff has indicated to the Commission that it is satisfied that Hanover has accounted properly for its plant additions, and that all are now used and useful and in service to the public. Staff recommends one

adjustment to Hanover's filing, to adjust depreciation lives for the improvements to those typically approved for other water companies under the Commission's jurisdiction. Specifically, main improvements are depreciated over 50 years and storage facilities over 45 years. The Company had requested depreciation lives equal to the term of the DWSRF loan, i.e. 20 years, in order to mitigate the cash flow impact of the fully amortizing DWSRF loan (payments of both principal and interest). By setting depreciation lives to 50 years for mains and 45 years for storage facilities, Hanover's requested increase is reduced slightly, to a revenue increase of \$258,205 or 24.59%.

Staff notes that the Company has some additional work to complete to fully comply with Order No. 23,435 regarding the establishment of Continuing Property Records (CPR's). Specifically, Hanover must fully document the location of each asset, properly identify in both the continuing property records and the general ledger the account which most appropriately holds each asset, and continue to update the continuing property records and general ledger as assets are added or retired to ensure that all subsidiary records support the assets of the Company as reported to the Commission. Staff has indicated that it believes the Company has substantially complied with the requirement to establish proper CPR's and recommends that January 31, 2002 be established as the final deadline for Hanover to

complete its work.

We have carefully reviewed the recommendation of Staff with respect to Hanover's step adjustment. We find that the proposed increase in revenue of \$258,205 or 24.59% will result in just and reasonable rates when considering the impact of over \$4,000,000 in needed improvements to Hanover's distribution system. See RSA 378:7 (requiring Commission to set only rates that are "just and reasonable or lawful"); RSA 378:8 (noting that utility bears burden of proving necessity of rate increase). Hanover's use of DWSRF funds, at an interest rate of 3.81%, provides substantial savings to customers over other alternative funding sources. We find that the improvements that form the basis of this step adjustment are prudent as well as used and useful in service to the public. See RSA 378:28 (authorizing recovery in permanent rates only on utility plant that is "prudent, used and useful"). We agree with Staff that the depreciation lives they recommend for the fixed assets are appropriate. Hanover can mitigate the cash flow impact of the loan repayment by carefully monitoring its earnings, controlling expenses, seeking new customers wherever possible, and exercising its right to request future rate adjustments if circumstances so warrant.

Because Staff has recommended approval of the Company's step increase proposal, subject to the adjustments described

above, we do not believe that an evidentiary hearing will be necessary to consider the request. However, because RSA 378:7 provides interested parties with a right to a hearing, we are approving the step increase on a *nisi* basis and allowing such parties to request an opportunity to be heard on the matter. We note that the Company has requested authority, on a temporary basis if necessary, to implement the new rates with bills rendered on or after January 1, 2002, which antedates the expiration of the *nisi* period. Accordingly, we approve the new rates on an interim basis and, if additional action becomes necessary at the conclusion of the *nisi* period we will adjust the Company's permanent rates as appropriate.

**Based upon the foregoing, it is hereby**

**ORDERED NISI**, that Hanover Water Works Company is authorized to increase the rates charged to customers by 24.59% for an annual revenue increase of \$258,205, effective January 1, 2002; and it is

**FURTHER ORDERED**, that Hanover Water Works Company complete the work necessary for full compliance with Order No. 23,007 regarding Continuing Property Records no later than January 31, 2002, with failure to document full compliance to result in the issuance of a Show Cause Order at which time the Company will be required to show cause why it should not be subject to fines under RSA 374:17; and it is

**FURTHER ORDERED,** that the Petitioner shall cause a copy of this Order Nisi to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than January 14, 2002, and to be documented by affidavit filed with this office on or before January 28, 2002; and it is

**FURTHER ORDERED,** that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than January 22, 2002; and it is

**FURTHER ORDERED,** that any party interested in responding to such comments or request for hearing shall do so no later than January 28, 2002; and it is

**FURTHER ORDERED,** that this Order Nisi shall be effective February 4, 2002, unless the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

**FURTHER ORDERED,** that the Petitioner shall file a compliance tariff with the Commission on or before Jan. 28, 2002 in accordance with N.H. Admin. Rules, Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this third day of January, 2002.

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Thomas B. Getz  
Chairman

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Susan S. Geiger  
Commissioner

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Nancy Brockway  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary